Impact of Monetary and Credit Policy on the Financial Performance of Commercial Banks in India (With special reference to Monetary and Credit policy declared from year 2013 to 2016 in the tenure of RBI Governor Dr. Raghuram Rajan)

A
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INTRODUCTION

The Banks are the main participants of the financial system in India. The Banking sector offers several facilities and opportunities to their customers. All the banks safeguard the money and valuables and provide loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products.

An efficient banking system is recognized as basic requirement for the economic development of any economy. Banks mobilize the savings of community into productive channels. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people.

According to Dr.Raghuram Rajan "Authorities like the central bank and the Government should, over the medium term, reduce the differences in regulatory treatment between public sector banks and private sector banks, and more generally, between banks and other financial institutions,"

Monetary Policies:

- **Price Stability**

Price Stability implies promoting economic development with considerable emphasis on price stability. The centre of focus is to facilitate the environment which is favourable to the architecture that enables the developmental projects to run swiftly while also maintaining reasonable price stability.

- **Controlled Expansion of Bank Credit**

One of the important functions of RBI is the controlled expansion of bank credit and money supply with special attention to seasonal requirement for credit without affecting the output.

- **Promotion of Fixed Investment**

The aim here is to increase the productivity of investment by restraining non-essential fixed investment.

Restriction of Inventories and stocks. Overfilling of stocks and products becoming outdated due to excess of stock often results in sickness of the unit. To avoid this problem the central monetary authority carries out this essential function of the economy and all social and economic class of people.

- **To Promote Efficiency**

It is another essential aspect where the central banks pay a lot of attention. It tries to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.

- **Reducing the Rigidity**

RBI tries to bring about the flexibilities in the operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

- **Monetary and Liquidity Measures**

On the basis of an assessment of the current and evolving macroeconomic situation, it has been decided to Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.5 per cent. Keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 per cent of net demand and time liabilities (NDTL); and continue to provide liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one percent of NDTL to a position closer to neutrality. Consequently, the reverse repo rate under the LAF will remain unchanged at 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 7.0 per cent.

- **Open Market Operations**

An open market operation is an instrument of monetary policy which involves buying or selling of government securities from or to the public and banks. This mechanism influences the reserve position of the banks, yield on government securities and cost of bank credit. The RBI sells government securities to

control the flow of credit and buys government securities to increase credit flow. Open market operation makes bank rate policy effective and maintains stability in government securities market.

- **Cash Reserve Ratio**

Cash Reserve Ratio is a certain percentage of bank deposits which banks are required to keep with RBI in the form of reserves or balances. Higher the CRR with the RBI lower will be the liquidity in the system and vice versa. RBI is empowered to vary CRR between 15 percent and 3 percent.

- **Statutory Liquidity Ratio**

Every financial institution has to maintain a certain quantity of liquid assets with themselves at any point of time of their total time and demand liabilities.

- **Bank Rate Policy**

The bank rate, also known as the discount rate, is the rate of interest charged by the RBI for providing funds or loans to the banking system. This banking system involves commercial and co-operative banks, Industrial Development Bank of India, IFC, EXIM Bank, and other approved financial institutes. Funds are provided either through lending directly or discounting or buying money market instruments like commercial bills and treasury bills. Increase in Bank Rate increases the cost of borrowing by commercial banks which results in the reduction in credit volume to the banks and hence declines the supply of money. Increase in the bank rate is the symbol of tightening of RBI monetary policy. As of April 05, 2016, the Bank Rate stands adjusted by 75 basis points from 7.75 per cent on September 29, 2015 to 7 per cent.

- **Credit Ceiling**

In this operation RBI issues, prior information or direction that loans to the commercial banks will be given up to a certain limit. In this case, commercial bank will be tight in advancing loans to the public. They will allocate loans to limited sectors. Few examples of ceiling are agriculture sector advances, priority sector lending.

- **Credit Authorization Scheme**

Credit Authorization Scheme was introduced in November, 1965 when P.C. Bhattacharya was the chairman of RBI. Under this instrument of credit regulation RBI as per the guideline authorizes the banks to advance loans to desired sectors.

- **Moral Suasion**

Moral Suasion is just as a request by the RBI to the commercial banks to take so and so action and measures in so and so trend of the economy. RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation.

- **Repo (Repurchase) rate**

Also, known as the benchmark interest rate is the rate at which the RBI lends money to the banks for a short term. When the repo rate increases, borrowing from RBI becomes more expensive.

- **CRR – Cash Reserve Ratio**

Banks in India are required to hold a certain proportion of their deposits in the form of cash. However, Banks don't hold these as cash with themselves, they deposit such cash (aka currency chests) with Reserve Bank of India, which is considered as equivalent to holding cash with themselves.

- **SLR - Statutory Liquidity Ratio**

Every bank is required to maintain at the close of business every day, a minimum proportion of their Net Demand and Time Liabilities as liquid assets in the form of cash, gold and un-encumbered approved securities. The ratio of liquid assets to demand and time liabilities is known as Statutory Liquidity Ratio (SLR). RBI is empowered to increase this ratio up to 40%. An increase in SLR also restricts the bank's leverage position to pump more money into the economy.

REVIEW OF LITERATURE

S.NO.	AUTHOR	TITLE	YEAR	OBJECTIVE	FINDINGS
1.	Dr.Apoorva Trivedi, Dr.Anisur Rehman , Dr.Yasir Afrafat Elah	A comparative analysis of performance of public & private sector banks in India through camel rating	Nov. 2015	To Comprehend the financial Performance of the selected banks through CAMEL model	It is found in selected banks capital adequacy, liquidity and earnings of the bank have enough level which is required.
2.	Abhimandas, Prachi Mishra,Nagpurnanand Prabhala	The transmission Of Monetary Policy within Banks: Evidence from India	April 2015	To analyse the intra bank performance in response to quantitative tools of monetay policy	It is find that evidence from cross sectional differences within banks in reference to monetary policy indicating that the intra performance is affected and Banks responds to monetary policy Accordingly.
3.	Jeevan Jayant Nagarkar	Analysis of the Financial Performance of Banks, in India	April 2015	To analyze the performance of five major public , Private and Foreign sector banks with principle component analysis on financial parameters.	It is concluded that couple of banks, depend on borrowing for giving advances the credit growth has slowed down and overall deposits of commercial banks have gone down.

4.	Kazem Aminzadeh , Rasoul Irani	Investigation on Monetar y Policies effect in view of Efficiency of Private Banks stock admitted in stock market.	Marc h 2015	To investigate the Simultaneous effect of independent and control variables on dependent variables.	It is find, there was A weak Correlation between volume of liquidity and the amount of published Partnership bonds and the return of stocks Of private banks admitted in stock market.
5.	Shailendra Kumar Rai	Central Banking System-A Bench Marking Study of India and Sweden	2014	To provide a comprehensive comparison of Indian central banking system and the Swedish central banking system	Riksbank's conduct of monetary policy with an explicit inflation target has given a Steadiness and stability to Swedish banks, and it can be alternative for India.
6.	Dr.Anurag. b.singh ,Ms.Priyan ka Tandon	A Study on the Financial Performance: A Comparative analysis of SBI and ICICI Bank	Nove mber 2012	To analyze the financial performance of SBI and ICICI Bank.	The study found that SBI is Performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank Has better managing efficiency than SBI.
7.	Dr.Virende r Koundal.	Performance of Indian banks in Indian Financial system	Septe mber 2012	To analyze the comparative performance of public sector, old private sector banks, new private sector banks and foreign sector	The public sector banks are not As profitable as other Sectors are. In terms of size, the smaller banks are globally efficient, But large banks are locally efficient.

NEED OF THE STUDY

There are various studies has been done in the banking sector some studies based on the financial performance, some studies talk about the analysis of pre and post-merger of Indian and private sector, some studies done for comparative analysis sector wise as well between private and public sector banks, but no, study focus on the financial performance of banks in relation to monetary, credit policy regulated under the RBI Governor Dr. Raghuram Rajan.

OBJECTIVES OF THE STUDY

1. To study and analyze the fact of Monetary & Credit policy declared by RBI (during the tenure of RBI Governor Dr. Raghuram Rajan from year 2013 to 2016).
2. To find and analyze the financial Performance of the selected Commercial Banks (Indian Public & Private sector banks)
3. To know the Impact of Monetary & Credit policy on the financial Performance of the selected Commercial banks (Indian public and Private sector banks) during his tenure.
4. To measure and compare Pre and Post Financial Performance of selected Commercial Banks (Indian Public and Private sector banks) before and after the declaration of monetary & credit policy of the governor of RBI Dr.Raghuram Rajan.

RESEARCH METHODOLOGY

In order to achieving the above objectives, the following research methodology will be adopted

DURATION OF THE STUDY: - For the purpose of analysis the data of financial year Pre-2010-2011, 2011-12, 2012-13 to Post 2013-14, 2014-15, 2015-16, 2016-17 will be taken into consideration.

SAMPLE SIZE: - In the research study, top 8 banks, out of 8 (four Indian Public sector banks and four Private sector banks) are selected on the basis of their market capitalization as on 1.6.2016 from the bank nifty.

Indian Public sector Banks	Private sector banks
1. State Banks of India.	1(HDFC) Bank
2.Punjab National Bank	2. (ICICI) Bank
3.Bank of Baroda	3.Axis Bank
4.Canara Bank	4.Kotak Mahindra Bank

DATA COLLECTION: - The study will be based upon secondary data. The secondary data will be collected mainly from RBI Monetary Policy reports, and annual reports of RBI. In addition, data and information will also be collected from Newspapers, Journals and Magazines etc.

STATISTICAL TOOLS: - For the analysis of data, descriptive statistical tools like t-test or other statistical tools will be used.

HYPOTHESIS

Ho_1 = There is no significant impact of the Monetary & Credit policy declared by RBI Governor Dr.Raghuram Rajan on the Financial Performance of selected Commercial Banks (Indian Public & Private sector Banks.)

Ho_2 = There is no significant impact of the Monetary & Credit policy declared by RBI Governor Dr.Raghuram Rajan on Liquidity of selected Commercial Banks (Indian Public & Private sectorBanks.)

Ho_3 = There is no significant impact of the Monetary & Credit policy declared by RBI Governor Dr.Raghuram Rajan on Capital Adequacy of selected Commercial Banks (Indian Public & Private sector Banks.)

Ho_4 = There is no significant impact of the Monetary & Credit policy declared by RBI Governor Dr.Raghuram Rajan on Profitability of selected Commercial Banks (Indian Public & Private sector Banks.)

Research will use the following research methodology to achieve following objectives.

S.NO	RESEARCH OBJECTIVES	RESEARCH METHODOLOGY
1.	To study and analyze the fact of Monetary & Credit policy declared by RBI (during the tenure of RBI Governor Dr. Raghuram Rajan from year 2013 to 2016).	In order to meet out this objective Monetary Reports by reserve bank of India from the period of RBI Governor Dr,Raghuram Rajan will Be studied.
2.	To find and analyze the financial performance of the selected Commercial banks (Indian public & Private sector banks)	T-test will be used for achieving this objective or other statistical tools will be used.
3.	To know the Impact of Monetary & Credit policy on the financial performance of the selected Commercial banks (Indian public and Private sector banks) during his tenure.	Trend analysis find by using financial ratio analyses on financial statements of the Selected Indian Public & Private sector banks
4.	To measure and compare Pre and Post Financial Performance of selected Commercial Banks (Indian Public and Private sector banks) before and after the declaration of monetary & credit policy of the Governor of RBI Dr.Raghuram Rajan.	Ratio analyses is used to determine Financial performance in reference to profitability, and working efficiency.

PROPOSED CHAPTER PLANS

Chapter 1	Introduction (Meaning and objectives and Instruments of Monetary and Credit policy)
Chapter 2	Profile of selected Commercial Banks (Indian Public sector & Private sector banks.)
Chapter 3	Theoretical framework of Monetary and Credit Policy of RBI. (Basic objectives of Monetary & Credit policy, Targets of Monetary & Credit policy, Role of Monetary & Credit policy, Monetary & Credit policy declared from year 2013 to 2016.)
Chapter 4	Analysis of the financial performance of the selected Commercial Banks (Indian public & Private sector banks.)
Chapter 5	Impact of Monetary & Credit Policy of Dr. Raghuram Rajan on the financial performance of selected Commercial Banks (Indian public and Private sector banks.) (Pre and post Financial performance of selected Commercial Banks)
Chapter 6	Findings, Conclusion & Suggestions

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